

# Understanding American Economic Inequality

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# Exploring the Income Gap



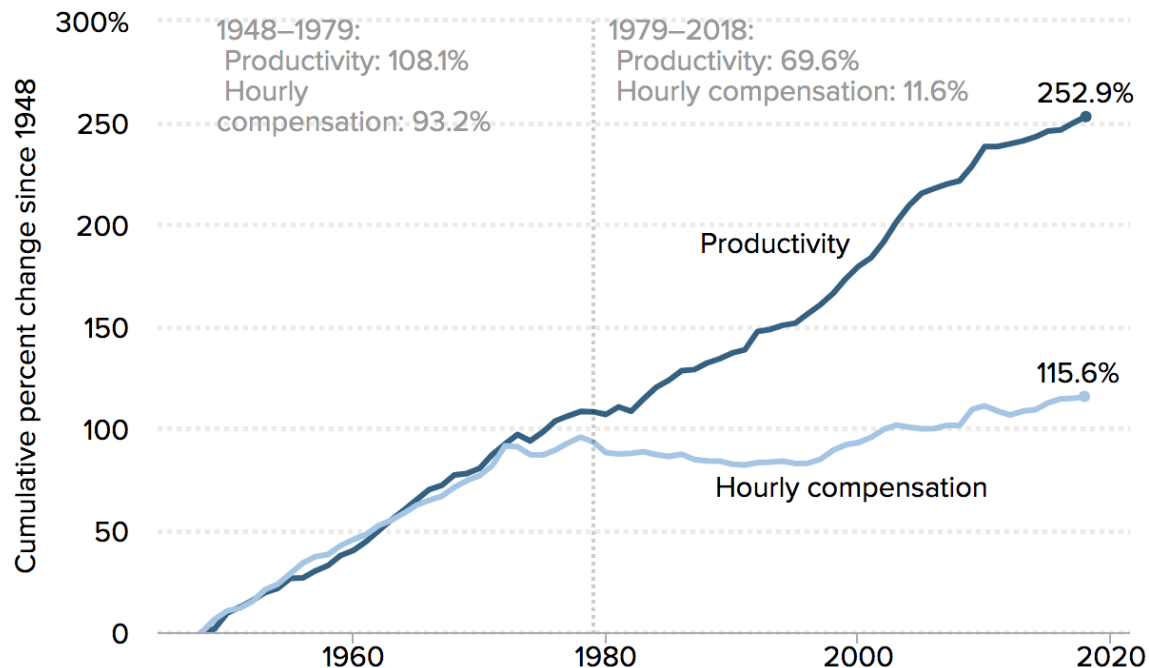


# Drivers of Widening Income Inequality

- ▶ Pre-tax: Productivity gains have not gone to labor in the form of higher wages
- ▶ Post-tax: “Tax reforms”
- ▶ Labor participation
- ▶ Booming stock exchange

## The gap between productivity and a typical worker's compensation has increased dramatically since 1979

Productivity growth and hourly compensation growth, 1948–2018



## Productivity–Pay Tracker

Productivity 1979–2018

**+69.6%**

Hourly pay 1979–2018

**+11.6%**

Productivity has grown **6.0x** more than pay since 1979.



# How the Private Sector Contributes

- ▶ Low wages
- ▶ Low benefits
- ▶ Uncertain hours
- ▶ Growing gap in compensation between executives and average workers

# A Closer Look at the Income Gap

- ▶ **Top 10%** averages **9x** the income than bottom 90%
- ▶ **Top 1%** averages **40x** the income of bottom 90%
- ▶ **Top 0.1%** averages **198x** the income of bottom 90%
  
- ▶ Gap has widened over past 40 years:

**Top 1% income percentage has grown from 9-10% of population's income to 22% at present** (similar to what happened before Great Depression)



# Causes of the Racial Income Gap

- ▶ Education
- ▶ Discrimination (esp. in labor markets)
- ▶ Unequal wealth

The median black family income is 55-60% of the median white family income (gap has remained consistent over the past 50 years)

# Exploring the Wealth Gap







# Wealth vs. Income

## Wealth

- ◀ Stock of resources
- ◀ Difference between what an individual owns and what an individual owes
- ◀ Reflects how long one can maintain existing (or decent) level of living

## Income

- ◀ Flow of resources
- ◀ Earnings
- ◀ How much did one bring in over a given amount of time



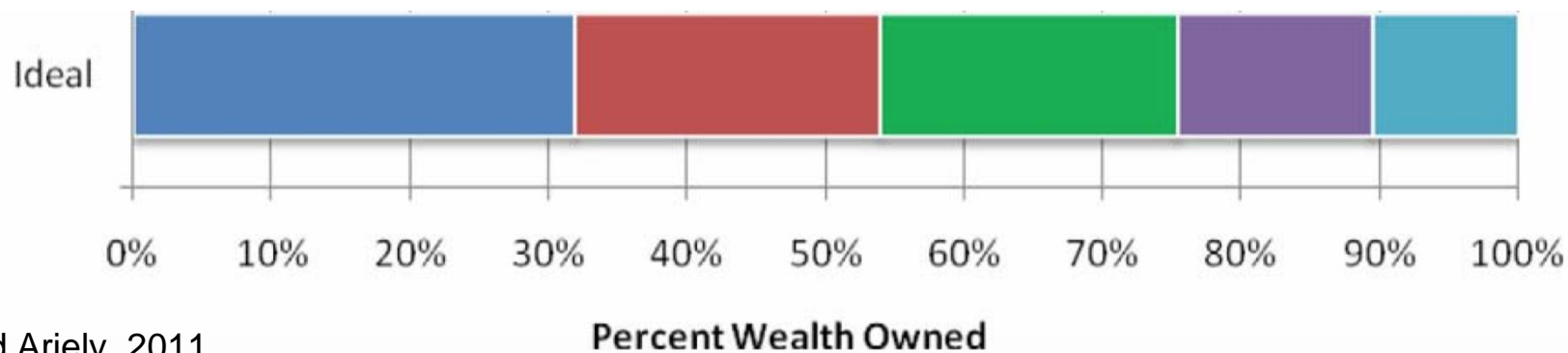
# Why Wealth Matters

- ▶ Indicates economic opportunity, security & overall wellbeing
- ▶ Buffers against economic shocks (job loss, medical emergency)
- ▶ Buffers against economic uncertainty
- ▶ Provides a *human capabilities* approach to personal development
- ▶ **Helps deliver gifts and bequests to future generations**



# **Four Examples Highlighting the Extent of Wealth Inequality**

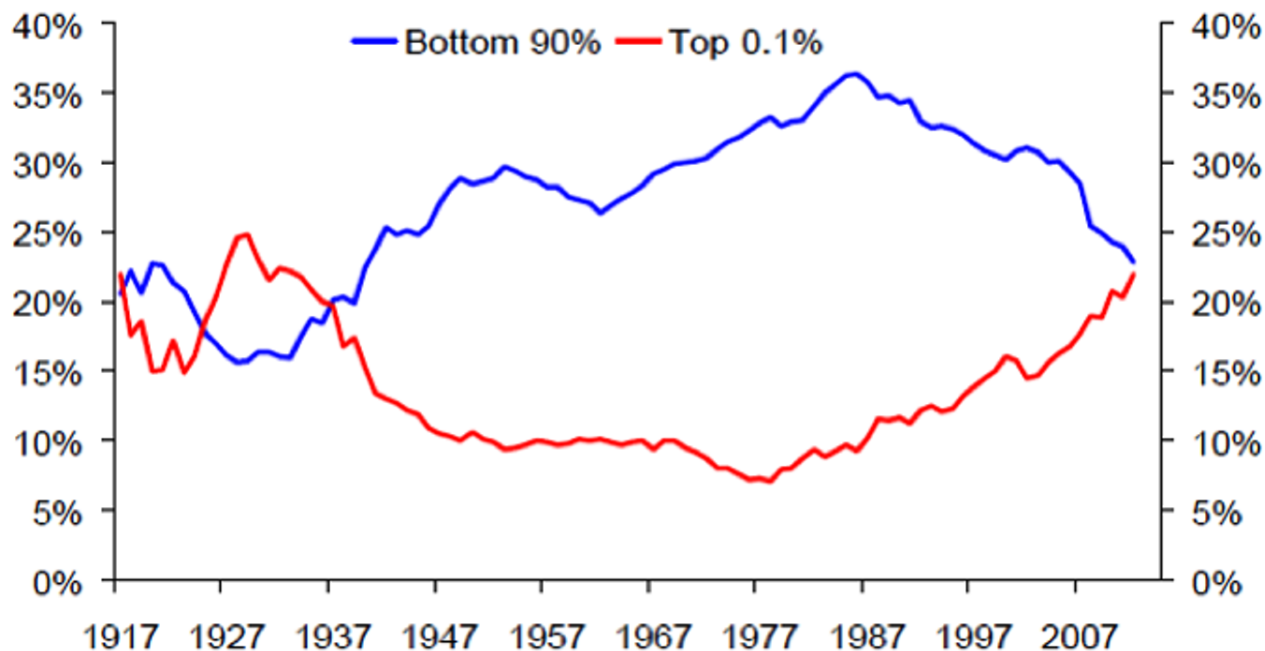
■ Top 20%   ■ 2nd 20%   ■ Middle 20%   ■ 4th 20%   ■ Bottom 20%



## US wealth inequality: Top 0.1% hold the same amount of wealth as the bottom 90%



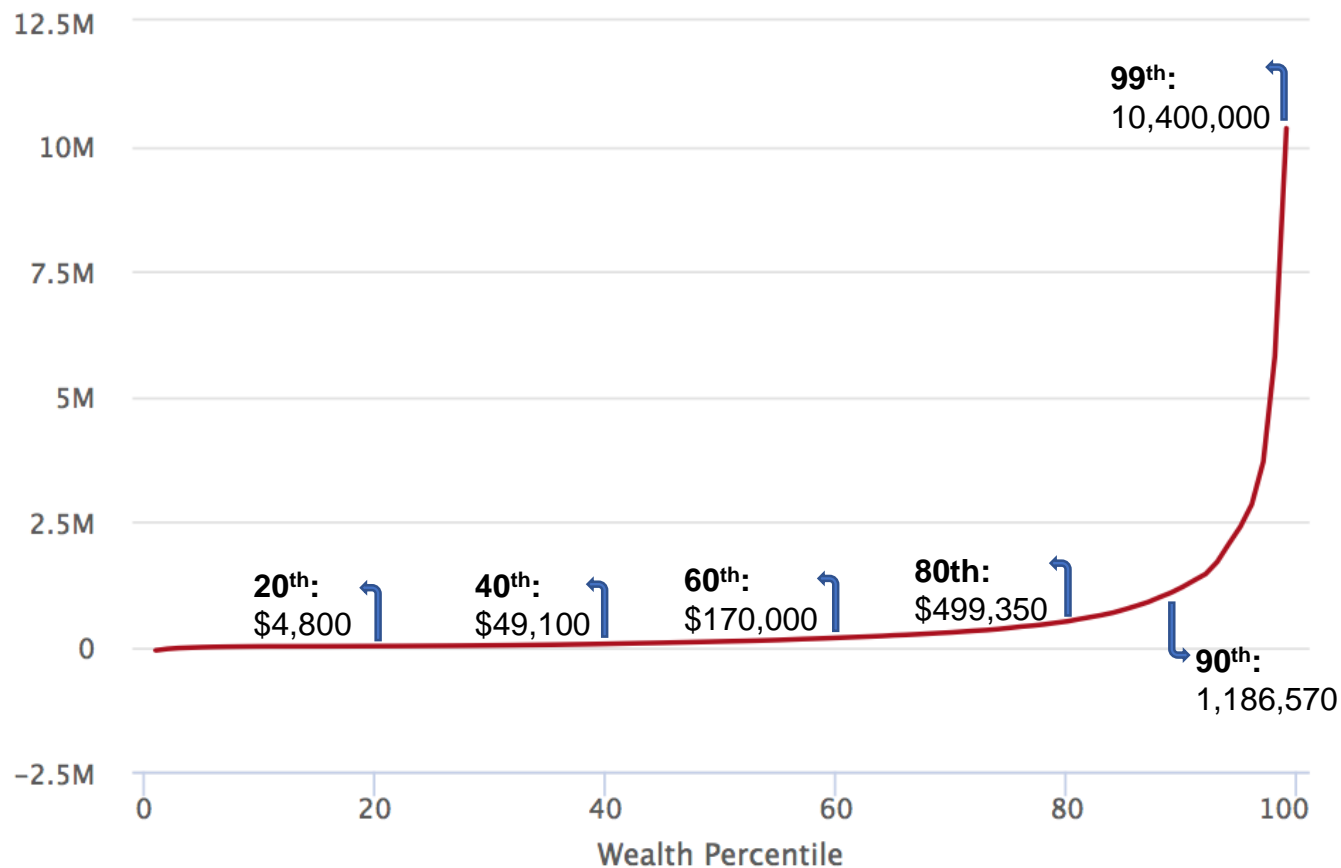
### Share of US household wealth by income level



Note: Data estimated by Berkeley Professors Saez and Zucman using capitalized income tax returns, see also here: <http://gabriel-zucman.eu/uswealth/>

SOURCE: Emmanuel Saez, Gabriel Zucman, QJE May 2016, DB Global Markets Research

## Wealth Level By Percentile (2016)



Source: Survey of Consumer Finances

## Income and Wealth Inequality, Compared

Subset of U.S. Population	Estimated Share of Income (2015)	Estimated Share of Wealth (2015)
Bottom 90%	50%	23%
Top 10%	50%	77%
Top 1%	22%	35%
Top 0.1%	11%	22%

**The 400 richest people in the United States own more assets than the 150 million Americans in the bottom 60 percent, combined.**

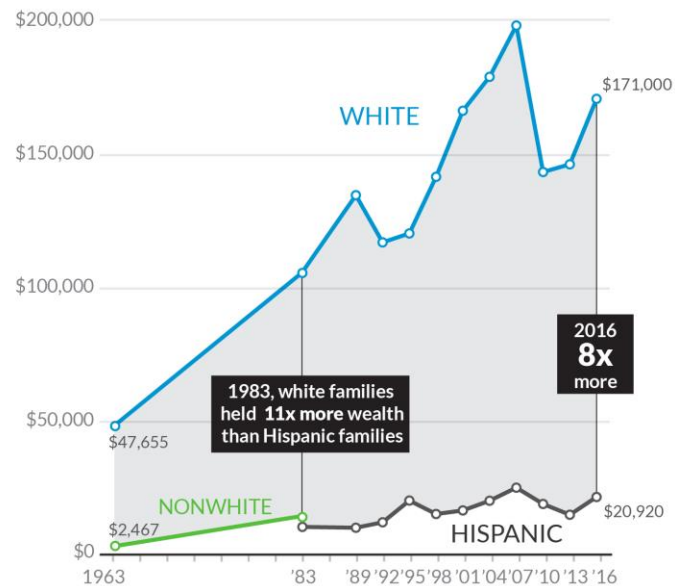
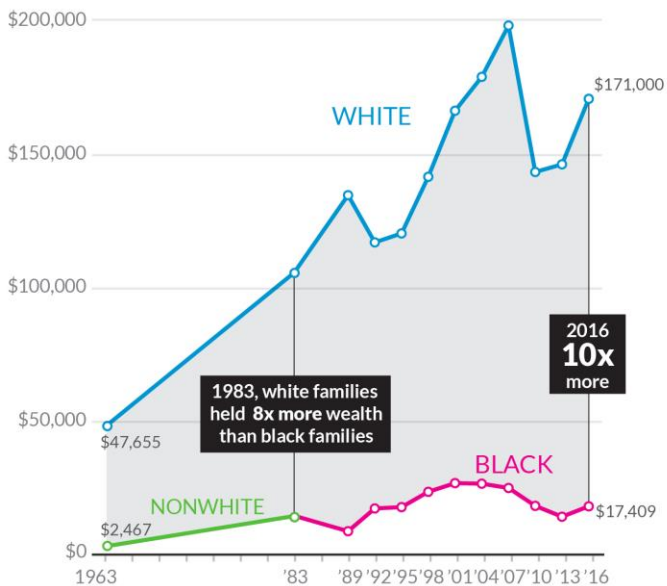
# Exploring the Wealth Gap at the Intersections of Race and Gender





# Between Racial and Ethnic Groups

## Median Family Wealth by Race/Ethnicity, 1963–2016



Source: Urban Institute calculations from Survey of Financial Characteristics of Consumers 1962 (December 31), Survey of Changes in Family Finances 1963, and Survey of Consumer Finances 1983–2016.

Notes: 2016 dollars. No comparable data are available between 1963 and 1983. Black/Hispanic distinction within nonwhite population available only in 1983 and later.

## Within Racial and Ethnic Groups

### Approximately 75% of all wealth

For blacks, whites, and Latinos is owned by the top 10% of each group

### Approximately 40% of all wealth

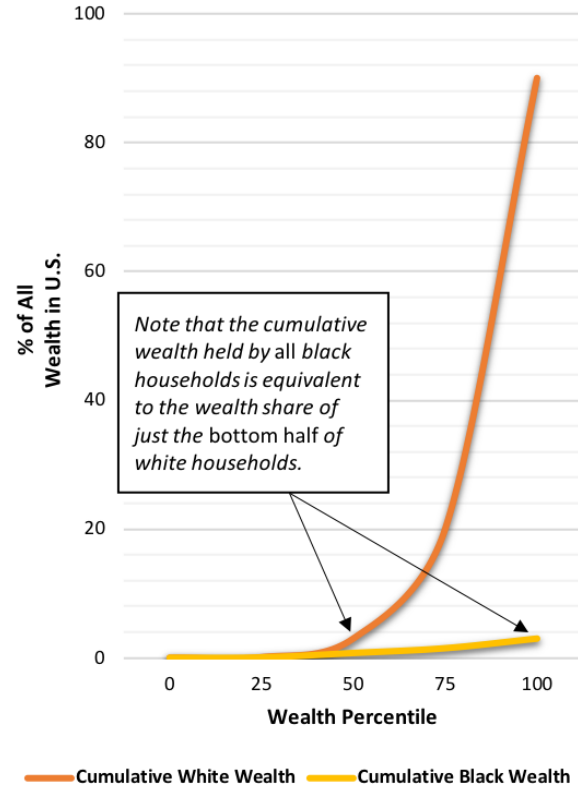
For blacks, whites, and Latinos is owned by the top 1% of each group

### Less than 3% of all wealth

For blacks, whites, and Latinos is owned by the bottom 50% of each group



# Wealth Share, By Race





# Sources of Wealth Inequality

- ▶ **Primary source is intergenerational**
  - ▶ Inheritances, gifts, absence of economic anxiety, optimism about future possibilities
- ▶ **Overall wealth gap is a product of government policy**
  - ▶ Tax and transfer policy
- ▶ **Racial wealth gap also is a product of government policy**
  - ▶ 1865-present
- ▶ **Education, hard work, income, and active savings do little to address the racial wealth gap**
- ▶ **The racial wealth gap is *structural* not behavioral**



# ***What We Get Wrong About Closing the Racial Wealth Gap***

## **▶ Myths of Pathways to Closing the Gap**

- ▶ Education
- ▶ Savings
- ▶ Buying and banking Black
- ▶ Homeownership
- ▶ Entrepreneurship
- ▶ Financial literacy
- ▶ Emulate other successful ethnic groups
- ▶ Family structure
- ▶ Soft skills
- ▶ Personal responsibility

*Black heads of households with college degrees have **two-thirds** the wealth of white heads of household without high school diplomas.*



## Racial Differences in Wealth among Elderly Women by Education

- ▶ White women who graduated from college have **35x** the wealth of black women who graduated from college
- ▶ White women without college degrees have **5x** the wealth of black women without college degrees and **5.5x** that of black women with college degrees



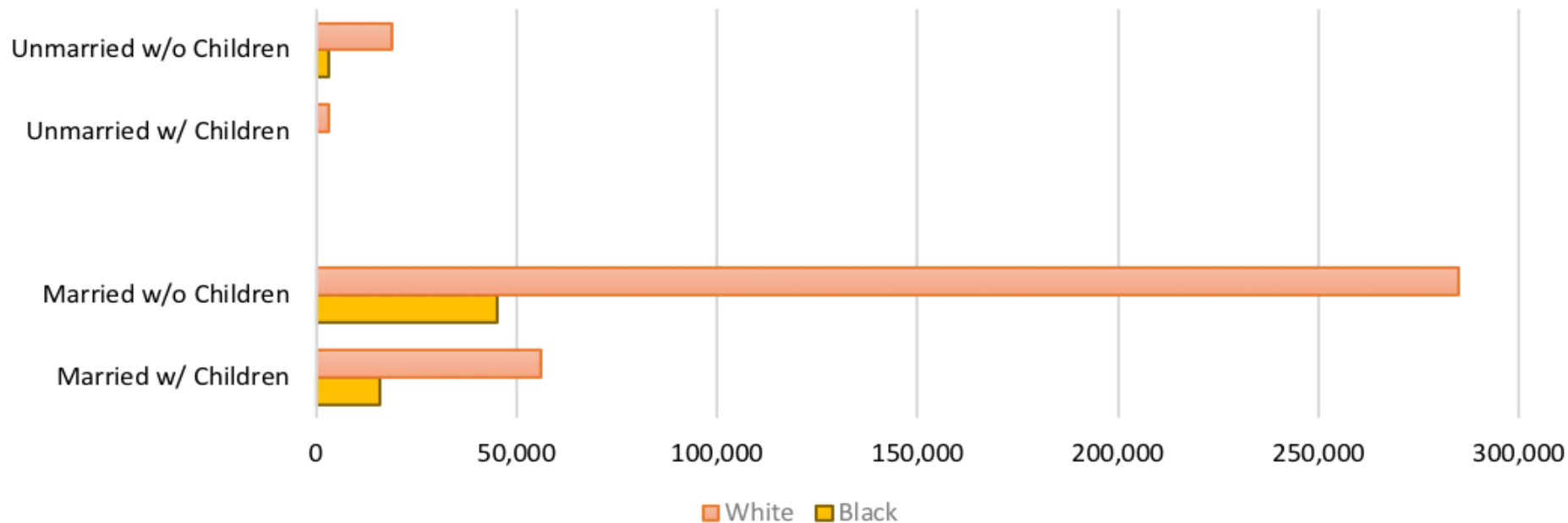
# ***What We Get Wrong About Closing the Racial Wealth Gap***

## ▶ **Myths of Pathways to Closing the Gap**

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## Median Wealth for Black and White Women by Marital Status and Presence of Children





# Causes of the Racial Wealth Gap

- ▶ Public Policies
- ▶ Intergenerational Effects (Gifts & Bequests)

# Bold Policies for a New America





# Ways to Alleviate Racial Inequality

- ▶ Federal Jobs Guarantee
- ▶ “Baby Bonds”
- ▶ Public Banking
- ▶ Improved educational opportunities (ending racialized tracking)




# Federal Jobs Guarantee

- ▶ Affects current generation
- ▶ Employment as a guaranteed right addresses income poverty—especially working poverty
- ▶ Meets human and physical infrastructure needs; could direct capital to communities where it's most needed
- ▶ Sets a floor on compensation for all workers



## **“Baby Bonds” aka Young Adult Trust Accounts**

- ▶ Universal program for future generations
- ▶ Foundation for asset development for all newborns regardless of the financial position into which they are born (Hamilton et al. 2015)
- ▶ Amount of the endowment would be graduated based on the child's parental wealth
- ▶ Program costs <10% of the annual social security expenditure



# Public Banking, through the U.S. Postal Services System

- ▶ Currently, **49.3** percent of black households and **45.5** percent of Latino households are unbanked or underbanked
- ▶ Would provide alternative to the predatory nature of the current system of finance
- ▶ Offers access to reasonable financial services
- ▶ Would generate a quality floor in the financial sector



## Ways to Alleviate Racial Inequality

- ▶ Federal Jobs Guarantee
- ▶ “Baby Bonds”
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**But to close the racial wealth gap,  
more is needed...**





# Reparations

**Post-slavery injustices had—and continue to have—severe economic effects on generations of black Americans**

- ✦ Failure to provide ex-slaves with “40 acres and a mule”
- ✦ Racialized policies
- ✦ Destruction of prosperous black communities and business districts
- ✦ ***From Here to Equality* (Darity and Mullen, April 2020)**
  - ✦ Three aims: Acknowledgement, Redress, and Closure
- ✦ **Two Criteria for Eligibility**
  - ✦ Had enslaved ancestor in the United States
  - ✦ Self-described as Black or African American at least ten years prior to the onset of the program

# Thank You!

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